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Report and recommendations of the Finance Committee

Agenda item 13 of the Council
Report of the Finance Committee

Report of the Finance Committee

I. Introduction

1. During the twenty-fourth session of the International Seabed Authority, the Finance Committee held eight meetings between 9 and 12 July 2018. On 13 July, the Finance Committee and the Legal and Technical Commission held a joint meeting in an informal setting.

2. The following members of the Committee participated in the meetings during the twenty-fourth session: Frida María Armas-Pfirter, Duncan M. Laki, Konstantin G. Muraviov, Hiroshi Onuma, Didier Ortolland, Andrzej Przybycin, Kerry-Ann Spaulding, Ahila Sornarajah, Reinaldo Storani, Zhi Sun, Ye Minn Thein, Umasankar Yedla, David Wilkens and Kenneth Wong. James Ndirangu Waweru had informed the Secretary-General that he would be unable to attend the meetings.

3. On 9 July 2018, the Committee adopted its agenda (ISBA/24/FC/1) and re-elected Andrzej Przybycin as Chair and Ye Minn Thein as Vice-Chair.

II. Implementation of the budget for the financial period 2017

4. The Committee was provided with a report on the implementation of the budget for 2017 (ISBA/24/FC/9) following the new format by programme as introduced in the 2017 budget. The report indicates an implementation rate of 87.1 per cent. The Committee requested and received clarification of a number of issues, such as underexpenditure in general, including expenses on furniture, the implementation of the compensation package, official travel, participation in various United Nations common services and the implementation of International Public Sector Accounting Standards (IPSAS), which will be followed by the development of an enterprise resource planning system. The Committee took note of the report on the budget performance for the financial period 2017.

* ISBA/24/A/L.1.

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III. Review of costs of conference services and implementation of other cost-saving measures

5. The Committee received a detailed report on cost-saving measures, including cross-cutting measures resulting in savings of 20 per cent on conference costs for the twenty-fourth session (ISBA/24/FC/8). The Committee commended the Secretary-General for his efforts and achievements in adopting significant cost-saving measures, especially those to reduce the costs of conference services, and encouraged him to pursue them further. In particular, the Committee recommended that the possibility of purchasing air ticket fares through the liaison office in New York from the travel agent used by the United Nations be explored to benefit from a wider competitive market.

6. The Committee was satisfied with the use of remote interpretation, but requested some technical improvements. In view of the significant cost savings that could be made, the Committee recommended that the Assembly and the Council revisit the possibility of using remote interpretation services for their respective meetings if outstanding technical issues, including the quality of the interpretation, could be resolved.

IV. Status of the implementation of the International Public Sector Accounting Standards

7. The Committee was presented with a report on the progress made by the Authority towards the implementation of IPSAS (see ISBA/24/FC/6). The Committee took note of the fact that, for the first time, the financial statements had been prepared in full compliance with IPSAS with the application of the IPSAS standards related to employee benefits, the disclosure of financial instruments and intangible assets. The Committee also noted the plan for the full implementation of IPSAS over the biennium 2019–2020 by exploring the options of performing the necessary upgrades to the existing software or switching to a platform embedded in an enterprise resource planning system.

V. Audit report by Ernst and Young on the accounts of the International Seabed Authority for 2017

8. The Committee took note of the report of the auditor and its opinion that the financial statements of the Authority reflected fairly and truly the financial position of the Authority as at 31 December 2017. The Committee also noted the Authority's financial performance and cash flows for the year in accordance with the financial regulations of the Authority and in compliance with IPSAS.

9. The Committee expressed its satisfaction with the quality and clear presentation of the audit report as well as with the management letter that had been submitted for the first time, identifying certain shortcomings in the system of internal control structure. The Secretary-General indicated that steps for improvements were already being taken, such as the monthly reconciliation of funds.

10. With regard to long-standing arrears and doubtful provisioning, the Committee agreed with the Secretary-General's view, contrary to the recommendation of the auditor, that unpaid assessed contributions could not be written off, as they were sovereign debts and obligations of members of the Authority. Nevertheless, the Committee highlighted its concern that arrears were at a stage where the auditor had questioned the Authority's proper accounting. In that regard, the Committee

reaffirmed the significance of paying assessed contributions in full and in a timely manner. The fact that 52 member States had been in arrears for more than two years was of particular concern, as the Authority was committed to critical strategic programmes to implement its mandate. Furthermore, the Committee noted that member States in arrears for more than two years lost their voting rights and that the continued increase in those numbers posed a serious policy concern for the Authority. Reference was made to the use of appointing a focal point in New York responsible for raising awareness among States of the need to address their arrears.

11. The Committee commended the Secretary-General for the Authority's proper accounting records, as highlighted by the auditor in its report.

12. The Committee thanked the Secretary-General for the additional information provided.

VI. Status of the Endowment Fund for Marine Scientific Research in the Area and of the voluntary trust fund to support the participation of members of the Council of the International Seabed Authority from developing States in the meetings of the Council

13. The Committee took note of the balance of the Endowment Fund for Marine Scientific Research in the Area in the amount of $3,549,808 as at 30 June 2018 (see ISBA/24/FC/5), including interest accrued in 2018 of $32,433 intended to be used to support the participation of qualified scientists and technical personnel from developing countries in marine scientific research and approved programmes. With respect to the voluntary trust fund established on 18 August 2017 to support the participation of members of the Council of the Authority from developing States in the meetings of the Council, the balance was $69,667 as at 30 June 2018.

14. The Committee also reviewed the provisional terms of reference for the administration of the voluntary trust fund from its creation, which have been promulgated in the form of a Secretary-General's bulletin (ISBA/ST/SGB/2017/9). The Committee endorsed the terms with two amendments and made a recommendation. For practical reasons, the Committee specified that the use of the fund was for participation in one of the two parts of the session of the Council. The Committee also recommended the insertion of a sunset clause for any amounts remaining in the funds at the end of 2019. The Committee further recommended that the list of members in the annex to the provisional terms of reference be amended after each election of members of the Council by the Assembly. The amended terms of reference are reproduced in the annex to the present report.

VII. Status of the voluntary trust fund for the purpose of defraying the cost of participation of members of the Legal and Technical Commission from developing countries and members of the Finance Committee from developing countries in the meetings of the Commission and of the Committee, and related matters

15. The Committee expressed its deep concern over the negative balance of the voluntary trust fund in the amount of $45,299, fully advanced from the regular budget of the Authority as at 30 June 2018 (see ISBA/24/FC/7).

16. In view of the importance of the full participation of members from developing countries in the meetings of the Legal and Technical Commission and of the Finance Committee, especially during the development of the Authority's regulations on the exploitation of mineral resources in the Area, the Committee recommended that the Assembly and the Council request the Secretary-General to redouble efforts to encourage members of the Authority, as well as other States, relevant international organizations, academic, scientific and technical institutions, philanthropic organizations, corporations and private individuals, to make contributions.

17. The Committee welcomed the fact that some members who were eligible to request assistance from the fund had not availed themselves of that facility and invited and encouraged other members from middle income countries that were able to follow that example to do so.

18. The renewed appeals in 2017 for voluntary contributions have not been sufficient. If the current situation is not addressed immediately, members of the Legal and Technical Commission from developing countries and members of the Finance Committee from developing countries that depend on assistance will not be able to participate in their respective meetings.

19. In order to address a recurrent shortfall in the voluntary trust fund, the Committee requested the Council to consider the feasibility of one of the following options:

(a) A $2,500 contribution to the voluntary trust fund be included in the annual overhead charge invoice to contractors on a mandatory basis. This option will ensure some contributions to make up for a shortfall in the voluntary trust fund but may not be sufficient to respond to all requests for assistance from the fund without adequate contributions. The amount approximately reflects the proportion of costs attributable to the work on the supervision of the activities of contractors of the Commission's members who requested assistance from the fund. The contributions will be allocated as a deposit to the voluntary trust fund under regulation 7.1 (h) of the Financial Regulations of the Authority;

(b) As an interim solution and on a voluntary basis, an additional contribution of $6,000 or less[1] would be added to the annual overhead charge invoice to contractors on an opt-out basis. Contributions will be allocated as a contribution to the voluntary trust fund. This option maintains the voluntary nature of the contributions, while the use of "opt-out" makes it more likely that there will be more contributions to the fund than at present.

20. Alternatively, a one-off solution for the next financial period could be a transfer of $100,000 in the form of a reimbursable advance from the accumulated surplus of the Authority's administrative budget. Such a solution is clearly not sustainable and will affect the assessed contributions of the members, which would not be in line with the voluntary nature of the contributions to the fund.

VIII. Working Capital Fund

21. The Committee was provided with a report on the status of the working capital fund (ISBA/24/FC/2) with updates provided by the secretariat. The level of the Working Capital Fund has increased to $660,000, with the most recent increase of

[1] In the past, the average annual cost of funding participation in the meetings of the Commission and the Committee for members from developing countries amounted to $170,000. The amount of $6,000 represents the amount necessary from each contractor to provide the fund with $170,000.

$100,000 approved by the Assembly in 2016. The assessed amount of the advances is $659,995. As at 30 June 2018, the balance of the Working Capital Fund was $585,067, with a further $74,928 to be collected between 2018 and 2020. The Committee took note of the report on the status of the Working Capital Fund.

IX. Status of overhead charges for the administration and supervision of contracts for exploration and their reflection of costs actually and reasonably incurred

22. As requested in 2017, the Committee received a detailed assessment of the costs incurred for the administration and supervision of contracts for exploration after consultations with contractors on possible cost-saving measures (see ISBA/24/FC/3). The Committee also recalled that, in 2017, it had suggested that it would likely recommend an adjustment of overhead charges in 2018.

23. Based on an extrapolation method used by the secretariat, the report shows updated estimate of annual overhead costs of $63,908 per contract, an amount that reflects the variation of different factors since the establishment of those charges in 2013 (see ISBA/19/A/2).

24. The Committee agreed that there was a need to increase the overhead charges. Taking into account possible inaccuracies from the extrapolation method and following a conservative approach, the Committee recommended an amount of $60,000.

25. The Committee requested the secretariat to establish a more accurate methodology benefiting from the ongoing implementation of IPSAS in the accounting of the secretariat and to report by the twenty-sixth session the exact costs for the supervision and administration of the contracts for exploration for the Committee to take up that question accordingly. The Committee also recommended that the amount be reviewed more regularly in the light of the collection of data and revised methodology.

X. Rules, regulations and procedures on the equitable sharing of financial and other economic benefits derived from activities in the Area pursuant to section 9, paragraph 7 (f), of the annex to the 1994 Agreement

26. The Committee took note of the report of the Secretary-General (ISBA/24/FC/4), in which the complexity and the number of issues to be addressed for the development of equitable sharing criteria were highlighted.

27. As a way forward, the Committee requested that the Secretary-General prepare a study including suggested sharing criteria for consideration at the twenty-fifth session of the Authority. The Committee agreed to establish an informal group to work intersessionally to enable progress on this important issue, including through the exchange of views on macroeconomic, legal and political factors in a forum on the website of the Authority. The Committee also requested that the matter be kept on its agenda for its session in 2019 and that sufficient time be reserved for discussion at its next meeting. The Committee noted the importance of advancing the implementation of article 82 of the Convention in parallel, while avoiding the duplication of work.

XI. Proposed budget for the financial period 2019–2020

28. The Committee examined the proposed budget for the financial period 2019–2020 in the amount of $18,470,900 (see ISBA/24/A/5-ISBA/24/C/11).

29. The Committee expressed its appreciation for the clear and thorough preparation of the proposed budget. The proposed budget represents an increase of 7.8 per cent, from $17,130,700 for the previous biennium to $18,470,850. This increase in nominal value represents a 2.5 per cent increase in the contributions of the member States of the Authority. The proposed budget is composed of $12,288,310 for the administration of the secretariat, $3,084,000 for the costs of conference services and $3,098,540 for programme expenditure.

30. The Committee considered the increase in the core work of the Authority, namely, finalizing the regulatory framework for deep sea mining and the protection of the environment and the development of the regional environment management plans. It welcomed the significant reduction in the costs of conference services, by more than 20 per cent, and commended the Secretary-General for the transparency and reliability of the proposal. It asked about the increase in the "established posts" budget line, from $6,200,000 to $7,140,461, or 15.2 per cent. The Committee requested clarification of the "general temporary assistance" budget line, and the secretariat confirmed that two United Nations Volunteers for the archives digitization project and for support to the information technology unit had been included therein.

31. The Committee noted that the creation of four new regular positions would require additional expenditure of $900,000 over the biennium. In view of the Secretary-General's explanation, the Committee noted the need of those posts to strengthen and enhance the capabilities of the Authority and enable it to meet new demands.

32. The Committee requested explanations on the large increase (20.2 per cent) in official travel. The Secretary-General explained that that budget line had always been underbudgeted (28.3 per cent overspending in 2017) and that the increase reflected the need for a larger travel budget. He added that the previous practice was inconsistent in that travel had sometimes been included in programme budgets.

33. The Committee also sought clarifications with respect to consultants, training, external printing, supplies and materials, hospitality, the redesign of the website of the Authority, the United Nations common system and IPSAS. The Secretary-General gave necessary and adequate responses and, in particular for the IPSAS budget line, explained that there had been no expenditure as all training had been received and that the budget line had been kept to finance the survey necessary for the design or selection of an enterprise resource planning system to enable the Authority to have administrative and financial processes that were IPSAS compliant.

34. Following the provision of supplementary information, including on the four new proposed posts, and the discussion in the Committee, the Secretary-General provided the Committee with a revised budget proposal for the financial period 2019–2020 in the amount of $18,235,850 (see ISBA/24/A/5/Corr.1-ISBA/24/C/11/Corr.1).

35. The Committee decided to recommend the approval of the proposed budget for the financial period 2019–2020 in the amount of $18,235,850, which represents a nominal increase of 6.5 per cent.

36. The Committee expressed its gratitude to the Secretary-General for providing further detail and explanation upon request and recommended that the Secretary-General be authorized to transfer between sections, subsections and programmes up to 20 per cent of the amount of each section, subsection or programme.

XII. Indicative scale of assessed contributions of members of the Authority to the administrative budget for the financial period 2019–2020

37. The Committee recommended that, in line with article 160, paragraph 2 (e), of the United Nations Convention on the Law of the Sea, the scale of assessments to the administrative budget of the Authority for 2019 and 2020 be based on the scale of assessments to the regular budget of the United Nations for the years 2016, 2017 and 2018 for the year 2019, taking into account the ceiling assessment rate of 22 per cent and the floor assessment rate of 0.01 per cent, differences in membership and the contribution of the European Union.

XIII. Other matters

A. Implementation of the budget from 1 January 2018 to 31 May 2018

38. The Committee noted with satisfaction the report on the budget performance in the first five months of 2018, with additional information provided on staffing, travel and workshops.

B. United Nations House project

39. The Committee took note of a report of the Secretary-General on the implications for the Authority of the United Nations House project, in which it was outlined that participation in the first phase would cost $31,643.24, payable in 2018. The Committee requested the Secretary-General to continue to inform the Committee on future developments.

XIV. Recommendations of the Finance Committee

40. In view of the foregoing, the Committee recommends that the Council and the Assembly of the Authority:

(a) Approve the budget for the financial period 2019–2020 in the amount of $18,235,850, as proposed by the Secretary-General (see ISBA/24/A/5/Corr.1-ISBA/24/C/11/Corr.1);

(b) Take note with appreciation of the significant reduction in the costs of conference services and the transfer of the resources made available by those savings to the programmes of the Authority;

(c) Authorize the Secretary-General to establish the scale of assessments for 2019 and 2020 on the basis of the scale used for the regular budget of the United Nations for the years 2016, 2017 and 2018 for the year 2019, taking into account that the maximum assessment rate will be 22 per cent and the minimum rate 0.01 per cent;

(d) Authorize the Secretary-General, for 2019 and 2020, to transfer between sections, subsections and programmes up to 20 per cent of the amount of each section, subsection or programme;

(e) Urge the members of the Authority to pay their assessed contributions to the budget on time and in full;

(f) Note with concern the increasing amounts of outstanding contributions, appeal once more to the members of the Authority to pay outstanding contributions to the budget of the Authority from previous years as soon as possible and request the Secretary-General, at his discretion, to continue his efforts to recover those amounts;

(g) Urge members and other possible donors to make voluntary contributions to the Endowment Fund and voluntary trust funds of the Authority;

(h) Express its deep concern over the negative balance of the voluntary trust fund for the purpose of defraying the cost of participation of members of the Legal and Technical Commission from developing countries and members of the Finance Committee from developing countries in the meetings of the Commission and of the Committee and consider the feasibility of one of the options identified in paragraphs 19 and 20 of the present report;

(i) Recommend an increase in the annual overhead charge referred to in section 10.5 of the standard clauses for exploration contracts, from $47,000 to $60,000 effective 1 January 2019;

(j) Revisit the possibility of using remote interpretation services for the meetings of the Assembly and the Council if outstanding technical issues, including the quality of the interpretation, can be resolved;

(k) Adopt the terms of reference for the voluntary trust fund to support the participation of members of the Council of the Authority from developing States in the meetings of the Council as contained in the annex to the present report.

Annex

Terms of reference for the voluntary trust fund to support the participation of members of the Council of the International Seabed Authority from developing States in the meetings of the Council

1. Pursuant to the financial regulations of the International Seabed Authority, a voluntary trust fund has been established to support the participation of members of the Council of the Authority from developing States.

I. Object and purpose of the trust fund

2. In its decision ISBA/23/A/13 dated 18 August 2017 relating to the final report on the first periodic review of the international regime of the Area pursuant to article 154 of the United Nations Convention on the Law of the Sea, the Assembly requested the Secretary-General to establish a voluntary trust fund to support the participation of members of the Council from developing States in the second annual meeting of the Council.

3. The objective of the fund is to defray the cost of participation of members of the Council from developing States in one of the two parts of the annual session of the Council scheduled for 2018 and 2019, respectively, during the time where there are two meetings of the Council per year.

II. Establishment

4. The fund is established pursuant to financial regulation 5.5 and shall be administered in accordance with the financial regulations of the Authority, as provided in financial regulation 5.6.

III. Contributions to the fund

5. Member States, observers and other stakeholders are encouraged to contribute financially to the voluntary trust fund. Other stakeholders may include, but are not limited to: other States; contractors with the Authority; relevant international organizations; academic, scientific and technical institutions; philanthropic organizations; corporations and private individuals; and non-governmental organizations.

IV. Implementing office

6. The Office for Administrative Service of the Secretariat is the implementing office for the fund and provides the services for its operation.

V. Report on the status of the fund

7. The Secretary-General shall report annually to the Finance Committee for its review of the use and status of the fund. The Secretary-General shall also report annually to the Assembly on the status of the fund.

VI. Terms of reference for the administration of the fund

8. The use of the fund is subject to the following conditions:

(a) A formal request by the Government of the State, containing the name of the delegate to be supported, must be communicated to the Secretariat no later than three months prior to the opening of the respective meeting of the Council. Late requests shall not be considered;

(b) Only members of the Council from developing States are eligible for support from the fund. However, in the event that the amount available in the fund is not sufficient to meet all requests for support, priority shall be given to members of the Council from least developed countries. A list of eligible States based on the composition of the Council for 2018 is attached in the annex to the present terms of reference, subject to revision following each election of the members of the Council;

(c) The fund shall be used to support the participation of one member of the delegation of an eligible developing State member of the Council in only one of the two meetings of the Council per year, as normally scheduled in February/March and July/August;

(d) For each member of the Council, only one delegate may benefit from support from the fund;

(e) Support shall be limited to economy class airfare by the most economical and direct route from either the capital or the official place of posting and to a daily subsistence allowance for up to a maximum of five days;

(f) The Secretary-General should inform the Government concerned of the outcome of the request in a timely manner.

9. Unless the Assembly of the Authority decides otherwise, any funds remaining at the end of the year 2019 will be transferred to the voluntary trust fund for the purpose of defraying the cost of participation of members of the Legal and Technical Commission from developing countries and members of the Finance Committee from developing countries in the meetings of the Commission and of the Committee, and the fund will be closed.

Annex

Developing States members of the Council in 2018

Algeria	China	Jamaica	Singapore
Argentina	Côte d'Ivoire	Lesotho	South Africa
Bangladesh	Fiji	Mexico	Trinidad and Tobago
Brazil	Ghana	Morocco	Tonga
Cameroon	India	Nigeria	Uganda
Chile	Indonesia	Panama	

Least developed countries members of the Council in 2018

Bangladesh	Lesotho	Uganda